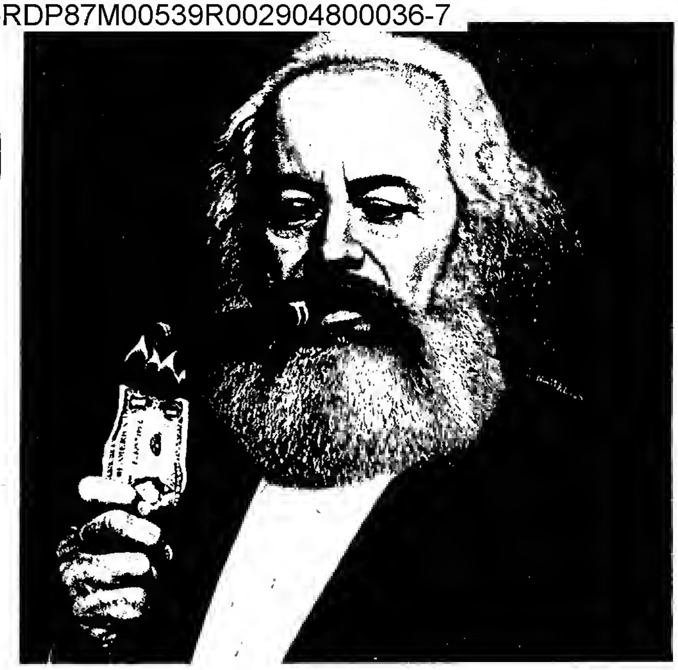
This article which was in the 4 Feb issue of U.S. NEWS & WORLD REPORT is on the same theme as your Union League Speech.

Approved For Release 2009/12/29 : CIA-RDP87M00539R002904800036-7

THE MARXIST WORLD

Lure of Capitalism



It's a bitter pill for them to swallow—yet Communist rulers almost everywhere are adopting free-enterprise practices to shore up their faltering economies.

From the rice fields and restaurants of China to the boutiques of Hungary and the factories of Yugoslavia, a revolution is brewing in the Communist world—a free-enterprise revolution.

In one Communist country after another, total state control of the economy is being relaxed as a variety of experiments are introduced that owe little to centralized planning and still less to Marx or Lenin.

Already some remarkable developments are on record.

In China, state-owned enterprises have been authorized to issue stocks and bonds to raise funds. Dividends are being paid to worker-shareholders.

In Yugoslavia, a new law requires factories that are chronic loss takers to reduce wages to the legal minimum. In Hungary, officials admit openly that the country is moving away from the traditional Marxist goal of total social equality.

Even in the Soviet Union, whose Communist Party is the most resistant to free-market reforms, the wind of change is starting to blow. One example: Some service industries now are permitted to keep any profits they earn.

As drastic as these changes seem, the ideological about-face that underpins them is still more revolutionary. Stated a report issued in October, 1984, by the Central Committee of the Chinese Communist Party: "Only when some individuals are allowed and encouraged to get better off first, through diligent work, will more and more people be prompted to take the road of prosperity."

Strict limits are placed on most of these reforms. Nowhere are key industries such as steel and oil slipping out of state control. Large, privately owned companies still are universally banned, and nowhere do the changes so far seem radical enough to threaten the ruling Communist Party's monopoly on political power.

Yet what is occurring represents such a vast psychological break with the past for Marxist societies steeped in the doctrine of total state control of the economy that the long-term effects are incalculable. So why is the risk being taken?

Among Western specialists, one answer is given time and again: The complexities of developing and operating a modern economy are proving incompatible with the strait-jacket of centralized planning and control.

On paper, some evidence does exist that Communist states are pulling out of their economic slump. A recent report by the Economic Commission for Europe, for instance, found that the Soviet bloc's hard-currency debts are falling, output is rising and trade with the West is in surplus again.

This turnaround, however, masks enduring problems that show no sign of easing. In every Communist state, long-term-growth prospects are poor, productivity low and innovation lacking. Almost all suffer from persistent shortages of basic consumer items. Black markets flourish. Often, as in Poland, it is the independent-minded farmers who produce much of their country's food supplies on private plots.

To find out why the Communist world is reassessing Marxist economic practices and increasingly looking to the West for answers, the magazine queried its correspondents in five key nations. Their reports follow.

Destroying the System to Save It

PEKING

For three decades, Chinese consumers' desires were *san da jian*, or "three big pieces"—a wristwatch, a bicycle and a foot-powered sewing machine.

Now, in a development that mirrors the revolution in attitudes and policies sweeping the Communist world's most populous nation, the goal has moved up to a color-television set, a refrigerator and a tape-cassette player.

CATHERINE URSILLO—PHOTO RESEARCHERS

The impact of these changes on Communist ideology is reflected in an editorial in the official *People's Daily* newspaper published in December. "We cannot depend on works of Marx and Lenin to solve all of today's problems. . . . The economy is a vast sea, and there are many questions that are not written in books. [These questions] require us to investigate reality to find solutions."

Behind such unlikely statements lie 35 years of fruitless striving by the Chinese for Marxist purity—and the conclusion by Peking's current leaders that they must now risk destroying the Communist system in order to save it.

Today, in what amounts to the boldest departure from Marxist theory ever attempted by a ruling Communist party, free-mar-

ket principles have become China's new orthodoxy. The aim: Nothing less than the quadrupling of gross national output and per capita income within 20 years.

At the center of this gamble is the country's feisty 80-year-old leader, Deng Xiaoping—the same man once denounced by leftist zealots as a "capitalist roader." Since gaining ultimate authority in 1978, Deng has—

- Abolished most rural communes, restored family farms and set up a free market in agricultural and consumer goods.
- Championed a bonus-pay scheme allowing managers to reward good workers and penalize poor ones.
- Granted the country's state-owned enterprises wide autonomy in the manufacture, distribution and pricing of consumer, industrial and agricultural products.
- Opened up China's coastal regions to foreign investors and dispatched thousands of students to the West.

The result? The first surge of prosperity that a generation of Chinese citizens born since the Communist victory in 1949 has ever experienced.

In six years, peasants' incomes have increased 130 percent to about $120 a year. Eighty percent of the restaurants, retail stores and service shops opened since 1978 are privately owned. Total foreign direct investment in China now amounts to more than 8 billion dollars. Bank savings currently average $38 per person—about a month's wages for an average industrial worker. The self-employed—140,000 strong in 1978—today number 7.5 million, including 2 million in cities. Grain output—up 8 percent each year since 1979—has risen so much that China has become agriculturally self-sufficient.

Beyond such statistics, personal initiative, stultified by decades of official hostility, is reigniting like a prairie fire across the length and breadth of this huge country.

Government tour guides today bus foreigners to visit "rich peasants" with incomes as high as $10,000 a year. Newly organized farm teams are acquiring small airplanes for crop dusting. Farmers are being permitted to build spacious new homes of their own. Last year, the media even bestowed hero status on a chicken farmer described as

CHINA. Street tailors in Peking are among 7.5 million workers self-employed under government's move to free enterprise.

Living Standards— U.S. vs. U.S.S.R.

	U.S.	U.S.S.R.	Soviet Percentage of U.S. Total
Daily calorie supply *(per person)*	3,450	3,328	97%
Grain production *(pounds per person)*	1,960	1,405	71%
Meat production *(pounds per person)*	236	130	55%
Automobiles *(per 1,000 persons)*	538	35	7%
Refrigerators *(per 1,000 persons)*	349	268	77%
Telephones *(per 1,000 persons)*	791	84	11%
Physicians *(per 1,000 persons)*	2	4	200%
Infant mortality *(deaths per 1,000 births)*	11	32	294%
Life expectancy at birth *(years)*	75	69	92%

USN&WR—Basic data: Central Intelligence Agency, International Monetary Fund, Population Reference Bureau, U.S. Dept. of Agriculture

the first peasant to buy a privately owned automobile in the Chinese Communist era.

In the cities, too, the spirit of free enterprise appears contagious. As if to set a proper example, Peking has announced an end to the standard 2-hour lunch-nap-shopping break taken by government workers at midday. Western bankers in the capital complain of being importuned by individuals to invest in anything from auto-repair businesses to joint-venture airlines. An entire street in the Manchurian city of Harbin is given over to the sale of new, privately made vinyl sofas. Similar free markets can be found in cities such as Canton, Shanghai and Chengdu.

Behind word pictures like these lies a sustained campaign by Deng Xiaoping and his political allies to reduce waste and inefficiency in China, stimulate innovation and foster the manufacture of the kind of consumer goods commonplace in Asian free-enterprise strongholds such as Singapore.

Yet this explosion of entrepreneurship is not without problems. And it holds dangers of its own as Deng ages and a struggle to succeed him threatens in the future.

Even now a gap between peasant haves and have-nots is emerging, with at least 22 million farmers estimated to be earning less than $50 a year. Already some parents are said to be pulling children out of school to buttress the family work force. Others are reported to have violated China's strict one-child rule for the same reason. There has also been a noticeable surge in corruption and fraud.

Down the line, other difficulties loom. With the breakup of Mao Tse-tung's cherished commune system, many of the highly subsidized services once provided to rural families—schooling, health care, old-age welfare—are falling away. The easing of price controls could touch off inflationary pressures on the economy. Widespread fear of such an explosion prompted the government in January to reassure

Approved For Release 2009/12/29 : CIA-RDP87M00539R002904800036-7

workers that prices for most goods and services would be held in check until wages were increased.

Unemployment is another worry. By the turn of the century, 400 million people—half the peasant population—may be jobless if farm efficiency improves as much as planned. A similar problem could follow industrial modernization.

Politically, Deng's "socialism with Chinese characteristics" must navigate some hazardous waters.

Opponents warn, for example, that the course Deng is steering threatens social polarization of a kind that fueled the Chinese revolution more than 50 years ago. In the Communist Party, even Deng's supporters fear he is pushing ahead too rapidly. Unease also exists among bureaucrats who stand to lose authority, as well as diehard Maoists in the party and armed forces.

Just how extensive such opposition is cannot be judged accurately by outsiders. Following a national instinct for survival developed over 35 turbulent years, critics hold their tongues in public. But that doubts are widespread is questioned by few Western analysts.

For the moment, though, Deng and his reformist policies ride high. Last month, a new phase in China's modernization drive got off the ground with a three-pronged initiative intended to free prices, production and marketing in much of industry from state control. Within five years, if all goes well, factories making money will be taxed on profits, industrial workers will be paid according to results and losing enterprises will be allowed to go to the wall.

"One fourth of mankind proclaiming that Soviet-style Marxism-Leninism doesn't work—that's an intellectual development of major importance," contends a Western diplomat here. To which most Chinese at the moment are inclined to reply with Deng's now famous saying: It matters little the color of a cat, so long as it catches mice.

J. P. LAFFONT—SYGMA

POLAND. Enterprising farmers long have resisted effort by Communist Party bureaucrats in Warsaw to impose rigid controls over production.

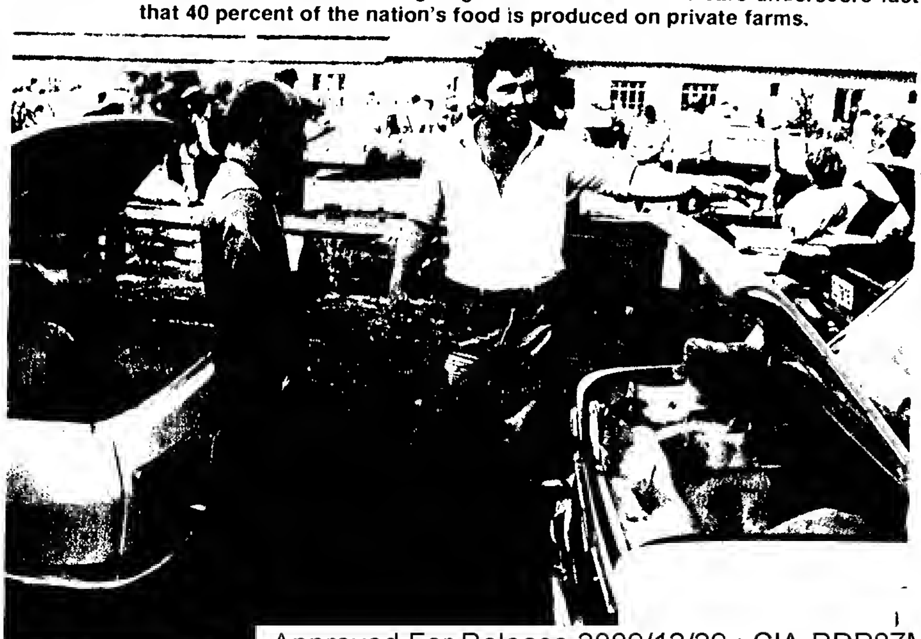
"Goulash Communism" Works

BUDAPEST

If there is a model for China as it spurns the once hallowed tenets of Marxism, it can be found in Hungary—since 1968 the center of economic innovation in the Communist world.

So high is the standard of living here compared with the rest of the Soviet bloc that each year 5 million other Eastern Europeans come to this country just for the shopping.

HUNGARY. Farmers selling hogs from trunks of their cars underscore fact that 40 percent of the nation's food is produced on private farms.



LEONARD FREED—MAGNUM

All over this city, artisans, shopkeepers, taxi drivers and restaurateurs operate almost as independently as their counterparts in the West. In stores, well-stocked shelves display Italian designer clothes and American magazines. Plush hotels and a casino do a thriving business. Shortages are virtually unknown. The bustling atmosphere is more similar to Paris than to the drab gloom typical of other Eastern European cities.

These Western-style realities are not limited to the retail sector. In agriculture, 40 percent of Hungary's food is produced by private farmers. Half a million of the country's 10.7-million population travel to the West each year. Hungarians may now bid for unsuccessful state-owned companies and operate them for set periods in return for a percentage of any profits they make. Communist-run firms are issuing bonds to raise capital for investment. No longer must factory bosses haggle with central planners over detailed targets and resources. Indeed, more than half the prices in Hungary are now determined by supply and demand.

Early in 1985, "goulash Communism," as Hungary's free-enterprise experiment is known, advances another step when reforms are introduced to raise prices, subject managers to tighter worker control and deter overemployment. In all, 400,000 people may lose their jobs because of the changes, and half of them could move into the thriving private sector.

How is this shift toward a market economy being achieved under the noses of the openly disapproving Soviets?

First, say Western diplomats here, in every key respect Hungary is still a loyal Soviet ally. The country is firmly integrated into the Warsaw Pact. Communist control of political life is as tight as ever. And Janos Kadar, the pro-Moscow official placed in power by the Kremlin after the 1956 uprising, retains the Soviets' confidence.

Second, the "commanding heights" of the economy remain firmly in Communist hands. Even after a 17-year drift from Marxism, 94 percent of Hungary's industrial output still comes from state-owned enterprises and more than half the country's trade is with other Soviet-bloc nations—something that acts as a limit to free-market trends. As one Western observer puts it: "The Marxist-Leninist straitjacket may have been loosened, but it has not been removed."

Even so, the relaxation of controls has not been

without complications. In 1982, Hungary ran short of cash and had to be bailed out by the International Monetary Fund. Hard-currency debts still are quite high. One firm in 4 is classified as a "problem company" by the Finance Minister. Prices, too, have risen steeply since 1982—giving rise to consumer grumbling.

Yet when all is said and done, one aspect of what is being tried here seems incontestable. It is this: The inspiration behind reform comes from the Western market economy.

Hungarians may have put their political aspirations on hold since 1956. But today, their hopes for material progress are tied openly to the laws of supply and demand.

Troubled Self-Management

BELGRADE

Marrying Marxism and capitalism is not all smooth sailing—and no people are better placed to illustrate this than the ethnically divided Yugoslavs.

For the past 37 years, a unique experiment has been under way here that attempts to be faithful to the principle of state control of the economy while operating on the practical basis of decentralized decision making. Perhaps not surprisingly, results have been mixed.

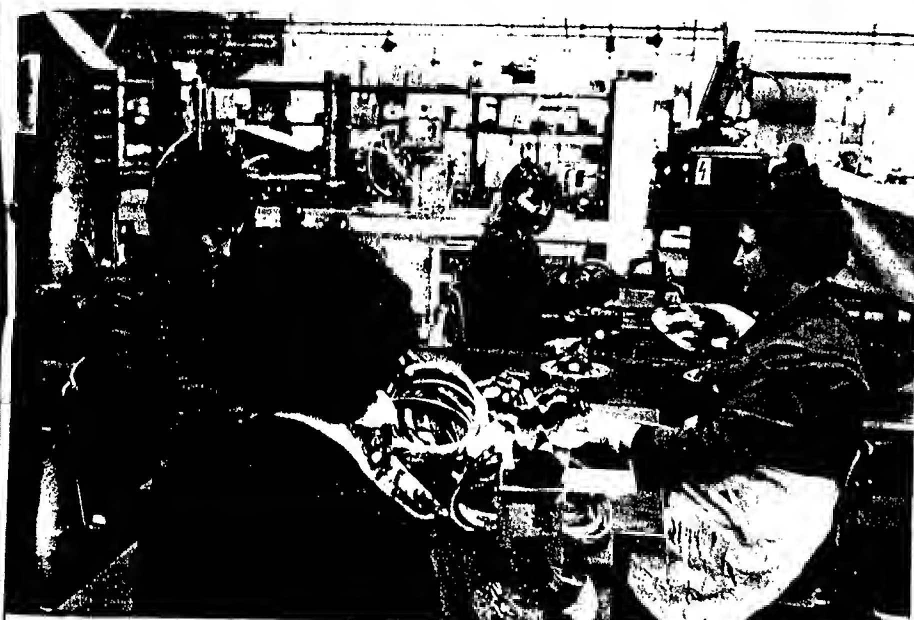
For nearly three decades under the inspirational leadership of Josip Broz Tito, all went reasonably well. Growth averaged 6 percent, industrial development spread rapidly and living standards rose. The state managed the national economy, but day-to-day decisions—including wage levels, production quotas and marketing strategies—were made by worker groups at the factory level.

In the late 1970s, this system—known as self-management—began to go badly awry. It has still not been corrected.

Today, inflation hovers around 60 percent. One worker in 6 is jobless. Foreign debts total 20 billion dollars. Austerity measures have cut incomes by 40 percent since 1980. Labor unrest is pervasive. Investment is lagging.

What went wrong?

To some experts here, Tito's death four years ago is the key to the situation. Without Tito—who almost singlehandedly held this patchwork country together from 1945 to 1980—ethnic mistrusts have resurfaced, a power vacuum has developed at the center and each of the country's six republics has tended to go its own way. "Instead of one stultifying bureaucracy, there are six," explains a Western economist.



GIANFRANCO GORGONI—CONTACT

YUGOSLAVIA. Self-management system under which workers are given a say in setting factory policies is beginning to run into problems after years of solid growth.

One result has been wasteful duplication. A train crossing the country, for example, must change engines at each republic's border because of the separate jurisdictions on the national railroad. Investments in steel, oil and nickel mining often overlap. Until disaster loomed in 1982, the authorities in Belgrade could not even calculate the country's foreign debt as a result of freewheeling borrowing by regional banks.

Other experts here in the Yugoslav capital wonder if this country, despite its obvious internal weaknesses, has not simply fallen between two chairs—one capitalist, one Marxist—as it strives to develop.

So ingrained is the country's self-management system, for instance, that many factories have operated free not only of state control but also of market disciplines, since Belgrade, in most cases, also insures that losing plants stay in business.

At the same time, self-management has eroded incentives to invest profits—so money is rarely set aside for capital improvements. In consequence, inefficient industries have tended to make outdated products that no one wants.

Faced with the potential collapse of self-management, Tito's heirs are now introducing some harsh medicine. In the process, however, they are pushing this country ever closer to an out-and-out free-enterprise system.

In one attempt to lure capital and technology, ceilings on Western investment have been raised. Price controls on most goods have been lifted. Unproductive factories are being allowed to fail. Two hundred thousand private businesses are being encouraged to expand.

Such moves are stirring up a fierce debate in this Balkan city between pragmatists and hard-line Communist ideologists—with the latter convinced that free-market reforms will loosen the Communist Party's political grip while doing little to solve Yugoslavia's economic woes.

For the time being, pragmatism holds sway. As an insider here puts it: "If we don't accept a more liberal economic system, we cannot expect to solve our problems."

Castro Shifts Gears

HAVANA

It was a generation ago that this island nation fell under Communist control. Ever since, the state has dictated economic life. Now, the wheel is starting to turn.

Once committed to rapid industrialization and an end to dependence on agriculture, Fidel Castro in the past year has begun to adjust Cuban economic priorities to try to satisfy pent-up consumer demand. In doing so, he is throwing overboard many of the economic practices that have underpinned Communist rule here since 1959.

Today, factory managers are being encouraged to circumvent central planners in Havana and work out deals with each other. A new law allows Cubans to own their own homes. Supermarkets are opening that only sell scarce consumer goods at high prices—part of a drive to spur worker output. Foreign investment is being courted. So are tourists.

What all this suggests is a more competitive, less egalitarian society. To date, it is not a possibility that frightens Castro and his entourage.

One high official explains that Castro deliberately is try-

MAGGIE STEBER—JULIEN PHOTOS

CUBA. Abandoning Communist precepts, Castro is allowing fashion shows to help spur consumption at home and attract foreign tourists and investments.

ing to stimulate domestic consumption in an effort to make Cuban factories eventually outpace U.S. plants.

Such rationalizations for zigzag policies fool few here. Faced with massive debts to Moscow, the inability of the Soviet Union to offer much additional help and a longstanding U.S. trade embargo, Castro now has little choice but to shift gears or face continued stagnation.

Also behind the Cuban leader's calculation is a concession to reality unthinkable even five years ago—the tacit admission that without access to American trade and technology, Cuba may never shake off its backwardness.

Ever the political tactician, Fidel Castro is gambling that his new pragmatism will win recognition in Washington—and economic advantages. As an official close to the Cuban leader puts it: "We are pragmatic. Without the hostility of the U.S., our system would become much more pragmatic."

Tinkering at the Edges

MOSCOW

The exception to the wave of economic pragmatism now sweeping the Communist world is provided by the Soviet Union. Yet nowhere does the need for reform seem more urgent. And nowhere is there greater potential for development if the shackles of state control ever are loosened.

Initiated by Nikita Khrushchev in 1957, stopped by Leonid Brezhnev in 1965, revived by Yuri Andropov in 1983 and cold-shouldered by Konstantin Chernenko in 1984, economic reform always has had a checkered history in the Soviet Union. That record now shows every sign of being maintained.

Today, five industries are experimenting with "reforms" designed to give factory managers a freer hand to solve problems. During 1985, several new sectors will be included. But what stands out about this new initiative is its extreme caution rather than its daring.

With growth slowing year by year, one poor harvest following another, natural resources becoming scarcer, labor productivity lagging and funds for investment shrinking, such conservatism may seem surprising. In fact, it reflects basic Soviet realities that to the Kremlin are far more important than economic statistics.

Led by a self-satisfied elite that feels under little domestic pressure to change its ways, the Soviet Union today regards itself as the last best hope of Marxism-Leninism. Others may experiment. But for the world's first proletarian state, orthodoxy remains an article of faith.

Moreover, say Western experts, centralized planning is a comfortable habit here. Reform means competition, and Soviet citizens—since 1945 used to slow but steady increases in living standards—seem far from unanimous in favoring that. Nor is the ruling Communist Party ready to accept any changes that could dilute its authority.

The result is constant tinkering at the edges of the system—and no genuine attempt to get at what is wrong. This in spite of all the debate between rival party theoreticians that periodically occupies the pages of the Soviet press.

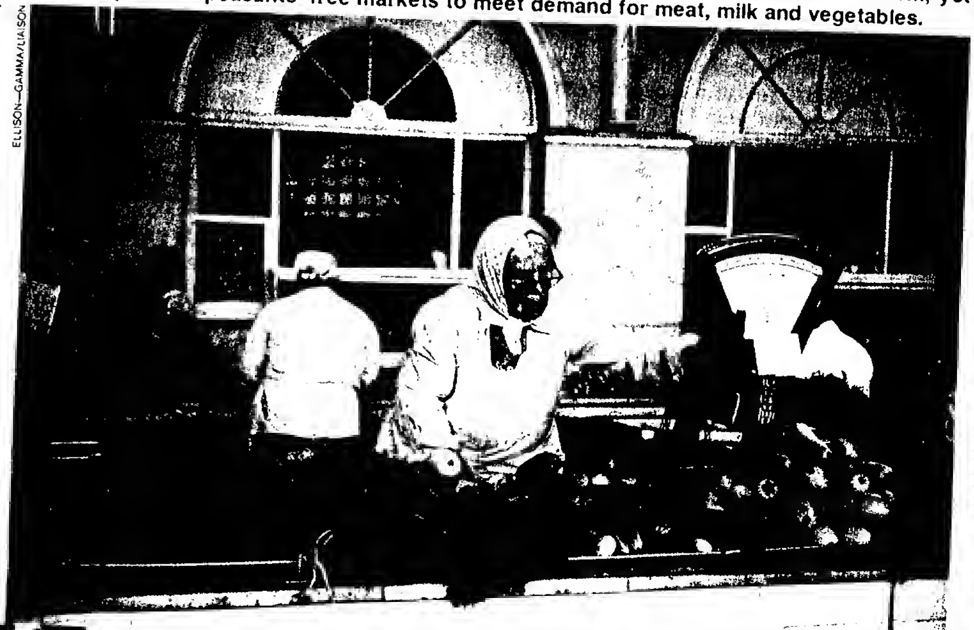
Yet even in this hidebound society, private enterprise flourishes—where it is given the chance. In the countryside, peasant plots make up 2 percent of the Soviet Union's farmland—and supply 30 percent of all meat, milk and vegetables and 60 percent of all potatoes. In the cities, the carpenters, mechanics, plumbers, tailors and other artisans working more or less openly for themselves do a thriving business. Without them, everyday life would grind to a halt. Thanks to them, the Soviet gross national product benefits by as much as 15 percent each year.

Liberating the intrinsic skills and talents of this country's 275 million people is something that no Soviet leader to date has seriously attempted. And on all present indications, the Kremlin is not about to try anytime soon. In the words of a Soviet journalist: "It has taken the English nearly 800 years since the Magna Charta was signed to perfect their system of government and economy. Why should our Marxist-Leninist system come to perfection sooner?" □

By ROBIN KNIGHT with WALTER A. TAYLOR in Peking, STEWART POWELL in Budapest, JEFF TRIMBLE in Belgrade, CARL J. MIGDAIL in Havana and NICHOLAS DANILOFF in Moscow

SOVIET UNION. Moscow considers itself the foremost bastion of Marxism-Leninism, yet must depend on peasants' free markets to meet demand for meat, milk and vegetables.

ELLISON—GAMMA/LIAISON



Communism "Doesn't Fit a Modern Industrial Society"

Economic failures are just the tip of the iceberg. A leading authority on Communist states says other crises also are defying solution by hard-line Marxist leaders.

ZURICH

Q Mr. Kux, one Communist state after another is introducing free-market reforms. Why is this happening?

A There are two main reasons. First, the Stalinist model of a command economy is no longer able to provide the necessary production and services. Second, Communist economies are losing the competition with capitalist economies. From the days of Marx, the main aim of Communism has been to supplant capitalism and provide a better economic system.

Twenty years ago, Nikita Khrushchev predicted that the Soviet Union would overtake the United States. But today the economic gap between the two countries is greater than ever.

Q How do you explain this?

A Marxism-Leninism just doesn't fit a modern industrial society. It has proved incapable of adapting to the scientific-technological revolution of our time. So has the Stalinist model, with its stress on centralized planning, heavy industry and tight controls over labor. Even Soviet leaders are now beginning to recognize this.

Q Is this obsolescence symptomatic of a wider crisis in the Communist system?

A Of course. It's not only an economic crisis. It's also a crisis of ideology, of leadership, of science and culture. Communist systems that claim to be crisisproof and therefore superior to capitalism are now in a systemic crisis which cannot be solved with the old Marxist recipe. Communists are realizing that neither their Marxist-Leninist "science" nor totalitarian party rule is able to handle the present situation and to provide guidance into the future.

Q What are the implications of this?

A The main one, in my opinion, is that the attempt to establish a unified socialist economic-and-market system is now gone forever. Yugoslavia has a different system from the Soviet Union. China has something different from Eastern Europe. In fact, there is greater economic diversity today in the Communist world than ever before.

Q What impact is this having on the idea that the Soviet economy is some kind of model for the developing world?

A Well, most developing countries have realized that the Soviet Stalinist model can't bring them out of their backwaters. So now more and more are turning to the so-called capitalist way. This trend seems likely to continue.

Q And what about the impact on Communist parties? Can they maintain a monopoly of political power while decentralizing the economies in countries where they rule?

A Any greater economic flexibility will, of course, change the social and political fabric of Communist countries. The rigid control of Communist parties is bound to be affected. Inevitably, a more pluralistic system will develop.

We've already seen this in Poland, where the working class rose in revolution against the ruling elite and had to be crushed by a military takeover—something deemed impossible according to Marx and Lenin's theories.

It's precisely because the Kremlin fears such developments that it is not introducing similar reforms in the Soviet Union.

Q Is the Communist system itself a barrier to change?

A Yes, very much so. Up to now, every reform proposal—in the Soviet Union, in Czechoslovakia, in Yugoslavia—has been limited by the determination of party leaders not to give up control over the management of the economy. As long as they keep this up, there will never be real reforms.

Q Is that the only reason?

A Not at all. Another thing I want to mention is that the Soviets, in particular, had little need to introduce reform during the 1960s and 1970s because they got a lot of input from Western know-how, credits, trade and grain deliveries. It wasn't so necessary then to introduce changes.

Q How are these moves toward free enterprise working out? In short, are the economic reforms solving the problems besetting the Communist world?

A None of these reforms so far has produced a socialist system that works better than the capitalist system in Western industrial countries. But we must be clear: While the Communists have not achieved their purpose, they have produced some changes.

For instance, the Hungarian initiative, though definitely overstated, has relaxed the atmosphere in Hungary a little and improved productivity. And in Yugoslavia, the self-administration system has certainly produced change, though it has been more negative than positive.

Q How about the Chinese reforms?

A Deng Xiaoping is replacing the rigid Stalinist model by a so-called socialism with Chinese characteristics that combines central planning with market regulation, movement on the inside with opening to the outside world. The aim is to catch up with the new technical revolution on a global scale and to bring China into the forefront of the developed industrial societies.

Q Given China's record of sudden political shifts, do you think Deng's policies will outlast him?

A According to my observations in China, a great movement has begun and reached a point of no return. Deng's policy has now broad support—so much so that I don't believe any of Deng's successors will be able to go back to the old radical Maoist approach. If they tried it now, it would produce tensions or even uprisings.

Deng's reforms are, of course, a great challenge to the other Communist countries, the Soviet Union included, and may induce them to try similar changes. The outlook for all Communist countries is to introduce reforms or to risk greater crises and upheavals. □

Interview With Ernst Kux, Swiss Expert on The Soviet Union

Ernst Kux, 59, has been a foreign editor of Zurich's *Neue Zürcher Zeitung* since 1956. A political-science professor, he also writes and lectures throughout the West on Soviet, Chinese and Eastern European affairs.

Approved For Release 2009/12/29 : CIA-RDP87M00539R002904800036-7